

To:
Generators, Shippers, Suppliers, Customers,
Transmission and Transportation System Owners and
other Interested Parties

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23rd May 2008

Dear Colleague,

**National Grid Electricity Transmission and National Grid Gas System Operator
Incentives from April 2009**

Background

In November 2007 Ofgem announced the trial of a new process for developing SO incentives for schemes that would commence 1 April 2008. Under this new process NGET and NGG (National Grid) developed and consulted on its own initial proposals for electricity and gas SO incentive schemes. These proposals and the responses to them informed Ofgem's development of Final Proposals in February 2008.

On 12 May 2008 Ofgem issued an open letter¹ which reviewed the process used for the development of the 2008/9 incentives and states that "*the general consensus from respondents was that the change in process has been successful*" and that "*There was support overall for building on this process in future years*". In the letter Ofgem acknowledge industry feedback that earlier engagement is preferable. Accordingly Ofgem has requested that National Grid again lead industry engagement on incentives, including the development and consultation on its own initial proposals for schemes commencing 1 April 2009, initiating the process much earlier this year.

National Grid fully supports the continuation of this approach and this letter sets out the process we intend to follow to engage with the industry over the coming months in relation to the development of SO incentive arrangements from 1 April 2009.

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<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=SO%20Incentives%20Open%20Letter%20May%202008.pdf&refer=Markets/WhlMkts/EffSystemOps/SystOpIncent>

Scope, Process and Timescales

The incentives that require review from 1 April 2009 are:

Electricity – Balancing Services Incentive Scheme (including Transmission Losses)
Gas – NTS Shrinkage, Operating Margins, Residual Balancing and Information Incentives

Ofgem's open letter has set out a number of areas within each of these incentives that require review, and these will be taken forward in addition to a more general review of the structure of incentives going forward.

The review will commence with industry workshops to discuss the form and scope of incentives including the issues raised in Ofgem's letter. The Gas workshop will take place on the 25th June and the Electricity workshop will take place on the 26th June. Further details including venues, times and agendas will be circulated as soon as they are available. To register your interest and receive further details of the workshops, please e-mail us on the address below².

Following the initial workshops National Grid will continue to engage with the industry on the development of the form and structure of incentives through industry fora, bilateral meetings and through focused industry consultations on specific issues.

It is our intention to bring together the output from this review process along with relevant forecasts in an Initial Proposals consultation covering both gas and electricity incentives in early November 2008.

This initial proposals consultation and responses will then inform Ofgem's development of Final Proposals during early 2009, with a view to establishing incentives from 1 April 2009 through amendments to National Grid's Licences. Ofgem will also continue to work with us through this process.

Summary

I would like to reiterate the commitment we made last year to ensure that we fully engage with you and other interested parties, in ways that work for you, in the development of SO schemes from 1 April 2009. If you would like to discuss any aspect of this letter or the wider review please do not hesitate to get in contact with myself or use the contact details below.

Yours sincerely,

Duncan Burt
Acting Regulatory Frameworks Manager
National Grid

² Note – Interested Parties who registered last year do not need to re-register

Contact us:

To register your interest in receiving future communications on this consultation process please email: SOIncentives@uk.ngrid.com

On the web:

New dedicated web pages for this process will be available shortly at the following addresses:

Electricity SO Incentives: <http://www.nationalgrid.com/uk/Electricity/>

Gas SO Incentives: <http://www.nationalgrid.com/uk/gas/>

Talk to us:

Gas

John Perkins Tel: 01926 656337 john.perkins@uk.ngrid.com

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Electricity

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